

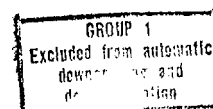
for the DCI
on 2 Sept 66The Communist Market for Free World Grain

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As you know, the Communist countries have been facing serious problems in the development of their agriculture during the 1960's. In practically all of these countries grain production has failed to keep pace with population increases. Stagnation in agriculture has seriously dampened economic growth. An understanding of the Communist agricultural problems is important in any analysis of the broader internal political and economic problems confronting Communist leaders. For example, the Communists have had to spend an average of more than \$1 billion a year during the past 3 years to purchase grain from the Free World. These purchases have placed a severe strain on Communist reserves of gold and foreign exchange. Both the USSR and China have been forced to forego an equivalent value of imports of needed machinery and equipment. Consequently, a severe crimp has been put in plans to modernize industry, particularly in the case of China.

During recent years there have been increasing demands on CIA for intelligence evaluations of Communist agricultural problems and their effect on economic growth -- analysis of the current situation and prospects for the future. Most recently there has been a growing interest in the US government concerning long term prospects for Communist agriculture, especially as they will affect the international grain market -- and more specifically the implications for US exports of grain. The world grain picture, particularly for wheat, has changed sharply in

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recent years. World wheat stocks are not^w only about 30 million tons -- about one-half of the level 5 years ago. US wheat stocks -- at less than 15 million tons on 1 July 1966 -- are at a 14-year low and less than 40 percent of the level 5 years ago and expected to decline further in the coming year. The US wheat acreage allotment for 1967 has been increased by almost one-third which is expected to increase production next year by some 8 to 9 million tons or about 25 percent.

The White House Staff recently laid on a major inter-agency study, being chaired by Commerce, to look at the world grain situation through 1970, and specifically the prospects for US grain exports to the Communist countries. Important questions for the future include:

1. the trend of grain import requirements for the Communist countries
2. the extent to which these requirements can be met through purchases outside the US, or alternatively
3. the extent to which Eastern Europe, the USSR and even Communist China might be obliged to come to the US to meet requirements.

It has been our job in this inter-agency study to provide that part of the analysis dealing with Communist agriculture. We concluded that by 1970 the USSR probably again will be a net grain exporter, assuming average weather conditions. This estimate also assumes that Soviet agriculture will continue to have its present high priority and that the regime will make a determined effort to provide the planned

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inputs and incentives. As the chart shows, however, Soviet grain production is highly variable, with year-to-year fluctuations being mainly the result of weather. Therefore, it is quite probable that the USSR could have at least one bad crop prior to 1970, necessitating large grain imports. A bad crop early in the period would require larger imports than a similar crop later in the period when reserves will be larger and gains from the new programs have been realized. For example, if the crop next year is as adversely affected by weather as the crops in 1963 and 1965, Soviet net imports of wheat might again reach 7 or 8 million tons. In fact the recent Soviet-Canadian agreement, providing for Soviet purchase of 9 million tons over the next 3 years, may represent a Soviet effort to budget over a 3-year period the purchases that might be necessary in the event of a bad crop in the next few years. If, on the other hand, a bad crop occurred in 1969 or 1970 after several average to good crops much of the deficit in production probably could be filled from stocks. It is not possible, however, to establish a simple direct relation between grain production and trade in the USSR. Little is known about the level of stocks which may cushion large fluctuations in production. Also, the decision to import or export grain is a high-level policy decision and undoubtedly is influenced by many considerations, both economic and political.

The outlook for Chinese agricultural production is less promising; we do not foresee any significant improvement. We believe that the increases in food supplies necessary to keep pace with population

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growth would have to be obtained primarily by increased output of the major grain crops. This in turn means a massive chemical fertilizer program and extensive research to develop responsive strains of rice and wheat. Such increases will be difficult to achieve and, more importantly, we see little evidence that the Chinese regime seriously intends to make the effort. However, the Chinese population growth rate is such that an additional 4 million tons of grain are required each year simply to maintain present levels of consumption. We have projected that by 1970 Communist China may be importing some 7 to 8 million tons of Free World wheat while at the same time continuing exports of perhaps 1 million tons of rice. In a good year this import level might drop slightly. In a poor crop year we have projected that Chinese net imports might reach 10 million tons. It is probable that, depending on the severity of crop damage, actual import requirements would be at least double this amount merely to hold per capita grain consumption at present levels. We feel, however, that limited foreign exchange reserves and high priority alternative uses for these funds probably would prevent imports much above the projected level of 10 million tons.

Eastern European grain imports are expected to remain high although the gap between grain requirements and domestic production may narrow somewhat in the coming years. We have projected that in 1970 Eastern Europe may import about 7 million tons of grain, including some 5 million tons of wheat. The USSR probably will supply about one-third of the imports, with the remainder coming from the Free World.

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It seems clear that in the coming months and years the successes and failures in Communist agriculture, particularly as reflected in world and US grain trade, will continue to be a matter of interest to US policy officials. This will be especially true in periods when the USSR or China have the kind of crisis that confronted the Soviet Union in 1963 when the Soviets bought US grain.